

October 15, 2002

To: Chairman Kevin Wright, Commissioner Terry S. Harvill, Commissioner Ruth Kretschmer, Commissioner Edward Hurley, and Commissioner Mary Frances Squires of the Illinois Commerce Commission

Calpine Corporation appreciates the opportunity to submit comments for the Commission's consideration of the FERC Standard Market Design (SMD) Notice of Proposed Rulemaking. While recognizing that some elements of SMD have proven controversial, Calpine supports the aim of ending discrimination in access to the national transmission grid, as well as the aim of creating vibrant wholesale markets for electric energy. In our view, the SMD, which will remain a work in progress until a final rule is actually issued, holds the promise of reducing regulatory uncertainty as to the scope and structure of the regional institutions that will operate the transmission system and administer the markets. We view the most important elements of SMD to be those that bring to an end the exercise of market power inherent in the ownership and control of all functions of utilities that remain vertically integrated. It is our view that a vibrantly competitive generation sector is unlikely to emerge from the present phase of the utility sector's restructuring process, until native utilities cede control over transmission access and over dispatch functions to an independent third party with no market interest.

Calpine recognizes the exceptional interests that state authorities have in ensuring the emergence and proper operation of wholesale power markets. The analytical consensus appears clear that without competitive wholesale markets, it becomes difficult, if not impossible, for states to structure and ensure competition at retail. While the SMD leaves to states the matter of retail access, it seems likely to foster conditions conducive to retail market competition, by encouraging the evolution of demand responses that are key to the direct link that needs to be established between power supply and demand.

Calpine is gratified by the expressions of support for SMD that have already been declared by the Illinois Commission and by commissions in over 20 other states. We believe that the FERC has provided due deference to state prerogatives by including in SMD the provision to establish a Regional State Advisory Committee (RSAC). We believe the RSAC will prove to be an effective vehicle for states to have substantive input into what will be a lengthy and difficult implementation phase for SMD. The transmission grid, trading patterns and market structures are clearly regional in nature, and it is thus appropriate that states, collaborating regionally, find an appropriate role in the design and oversight of the new institutions that will manage wires and markets. The SMD, moreover, recognizes the importance of planning for adequate generation and transmission capacity, both being matters in which states have a direct and essential interest. American consumers benefit from being served by the regional integrated, interconnected transmission system. This system has ensured the reliability of power delivery in interstate commerce at least since the 1960s. Properly organized, the same system can be the foundation of competitive markets for power.

As always, with any important policy initiative, it will be necessary for all market participants, State authorities included, to negotiate and agree upon the details of how these new market institutions will be constituted and administered. We believe that SMD will be adaptable as well as adoptable, and that the FERC will permit the implementation flexibility needed to avoid missteps. In our view, the opportunity, as well as the theoretical knowledge, now exist to ensure the creation of regional organizations capable of fulfilling the statutory requirement for just and reasonable consumer rates. The RSAC, in conjunction with the independent operators of the

transmission systems and energy markets, will be in a position to safeguard consumer interests, ensure a level and competitive field for all generators, merchants as well as utility affiliates, and see to it that the transmission and generation system will expand to reliably meet future demand. We would urge the Commission to give SMD an opportunity to succeed. The risk, we believe, is minimal in that the FERC proposes significant and redundant tools with which to mitigate any resulting market flaws. SMD is premised on no fewer than five layers of mitigation, including generator operating agreements, bid caps in the real time and forward markets, safety bid caps in the capacity markets, regional price caps and Automated Mitigation Procedures. These structural elements are furthermore supplemented by far more rigorous market monitoring regimes than have ever been in place. It seems to us that the SMD safeguards respond directly to the states' concern with protection of the rights of consumers.

Calpine, as the largest independent generator in America, supports a stable and reliable market for power that inspires confidence in an industry that is in crisis. We seek no favors and no special treatment. We do seek a fair, competitive and level playing field in which to operate. We seek, in short, an opportunity to deliver good service to our customers. Given the opportunity, we will serve the people of Illinois, and of the region, with a high degree of integrity, and with clean, economical power that will fuel the state's economy.

We look forward to an on-going dialogue with the Commission, and with the Midwest ISO, as the hard work begins of translating a proposed rule into an actual, functioning grid and market structure. We will be both active and constructive in our participation in the SMD process in the Midwest, as elsewhere. The Commission can count on us for reasoned and prudent advocacy of our business interests.

Sincerely,

A handwritten signature in black ink, reading "Vito A. Stagliano". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Vito A. Stagliano  
Vice President, Transmission Strategy